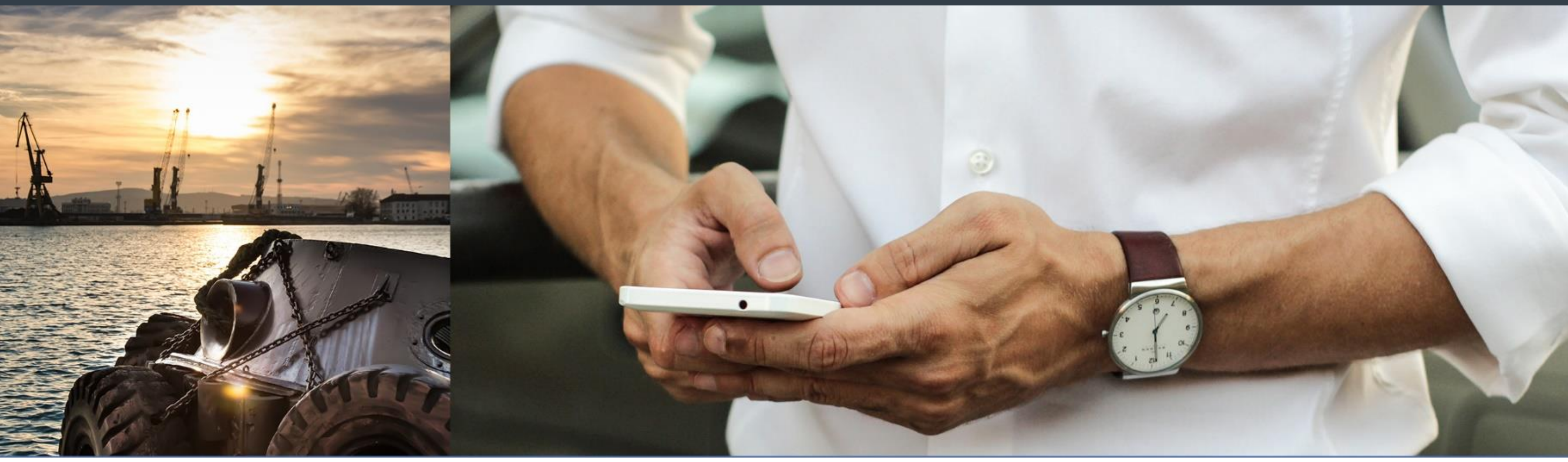
ECONOMIC REPORT

by Glacier Research

glacier by Sanlam



22 September 2021

Review period: August 2021

Introduction

Domestic equity markets retreated in August as sentiment for economic recovery eased slightly. Notably, South Africa launched the third phase of its vaccine rollout as the registration and vaccination for the 18-34 age group opened on 20 August 2021. According to the latest Department of Health data, approximately 12.6 million vaccines have been administered as of 31 August 2021. On the economic front, SA CPI made some notable moves to the downside. On the global side, equity markets recorded strong performances as the S&P 500 was up 2.9% for the month while the tech-heavy Nasdaq was up 4.0% in dollar terms. On the commodity front, Brent crude oil detracted by 4.4%, platinum was down 3.4% and gold was marginally down 0.03% for the month.

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Domestic Highlights

- SA unemployment rate worsens
- SA consumer inflation decreases

SA unemployment rate worsens

Stats SA's Quarterly Labour Force Survey (QLFS) results revealed that SA's unemployment rate has risen to yet another record high of 34.4%. This translated to a drop of 0.4% in total employment when measured on a quarterly basis. More alarmingly is the fact that when looking at the expanded definition of unemployment (which includes discouraged workers), the figure stands at 44.4%, increasing 1.2% quarter-on-quarter in the second quarter of 2021. This figure is more reflective of the true level of unemployment in the country. Furthermore, the employment-to-working age population ratio was still approximately 4.7% lower than it was in the second quarter of 2019, reflecting the ongoing pressures and slow pace of economic recovery.

SA consumer inflation decreases

South Africa's CPI continued to trend lower to 4.6% year-on-year (YoY) in July, after dropping to 4.9% in June 2021. Major areas which contributed to this downward pressure on inflation came from food and non-alcoholic beverages, housing & utilities and transport. It is expected that inflationary pressures will continue to trend downwards as base effects (created by price imputations during hard lockdowns in 2020 and fuel price movements) dissolve. The muted inflation will remove pressure for the South Africa Reserve Bank (SARB) to hike rates, allowing rates to remain lower for a while.

SA economy

Sentiment towards economic recovery remains muted due to the slow pace of vaccination amongst other factors. Retail sales volumes growth moderated to 10.4% YoY in June 2021, from the lockdown-induced spike of 16.3% in May, reflecting diminishing base effects. The third wave of COVID-19 infections, termination of fiscal support to vulnerable households and a decline in consumer confidence have directly contributed to the deterioration of shopping activity in the second quarter of 2021. Another economic driver was the narrowing of the trade surplus to R37 billion in August, from R55 billion in July. Exports decreased by 11.2% month-on-month while imports declined by 0.7%. Consumer price inflation surprised on the downside, coming in at 4.6% YoY, which is well within the SARB's target range of 3-6%. The rand strengthened 0.65% against the dollar for the month to R14.22/$.

	Mar'21	Apr'21	May'21	Jun'21	Jul'21	Aug'21
CPI (y/y)	3.2%	4.4%	5.2%	4.9%	4.6%	4.6%
PPI (y/y)	5.2%	6.7%	7.4%	7.7%	-	-

Sources: Trading Economics

	31 August 2019	31 August 2020	31 August 2021
USD/ZAR	15.19	16.94	14.52
GBP/ZAR	18.46	22.64	19.98
EUR/ZAR	16.69	20.22	17.15

Source: IRESS

SA markets

Local equity markets retreated during August as the ALSI dropped 1.74% for the month. This performance was significantly impacted by commodities, industrial metals, and materials as the RESI 10 and INDI 25 retreated by 6.1% and 5.2%. Small-cap stocks turned in solid performance, advancing 7.02% (bringing the year-to-date growth to 38.55%) as prospects of a rebound in the economy and momentum in the vaccination drive weighed positively on sentiment. Large-cap stocks were down 2.39% while mid-cap stocks were up 3.71%. Property (as measured by the ALPI) and financial counters reported strong performances gaining 7.12% and 12.28%, respectively. On the fixed income side, bonds closed 1.70% higher with the longer end of the curve (i.e., 12+ year and 7-12-year maturities) driving most of the returns. The 12 year+ area was up 2.46% while the 7-12-year area gained 1.30%. On the front end of the curve, the 1-3-year area gained 0.53% while cash was up 0.32%.

Foreigners were net sellers of R11.1 billion worth of SA equities and net sellers of R27.80 billion worth in SA bonds.

LOCAL RETURNS IN ZAR

May 2021	June 2021	July 2021	August 2021	2021 - YTD
SA MID CAPS 6.16%	SA PROPERTY 3.02%	SA TOP 40 4.53%	SA PROPERTY 7.12%	SA SMALL CAPS 38.55%
SA BONDS 3.73%	SA BONDS 1.09%	SA EQUITY 4.18%	SA SMALL CAPS 7.02%	SA PROPERTY 28.13%
SA SMALL CAPS 3.33%	SA CASH 0.31%	SA MID CAPS 2.79%	SA MID CAPS 3.71%	SA MID CAPS 23.49%
SA EQUITY 1.56%	SA SMALL CAPS -1.00%	SA BONDS 0.83%	SA BONDS 1.70%	SA EQUITY 15.88%
SA TOP 40 1.14%	SA EQUITY -2.43%	SA CASH 0.32%	SA CASH 0.32%	SA TOP 40 14.53%
SA CASH 0.31%	SA TOP 40 -2.56%	SA PROPERTY -0.40%	SA EQUITY -1.74%	SA BONDS 7.66%
SA PROPERTY -3.23%	SA MID CAPS -2.58%	SA SMALL CAPS -1.12%	SA TOP 40 -2.39%	SA CASH 2.48%

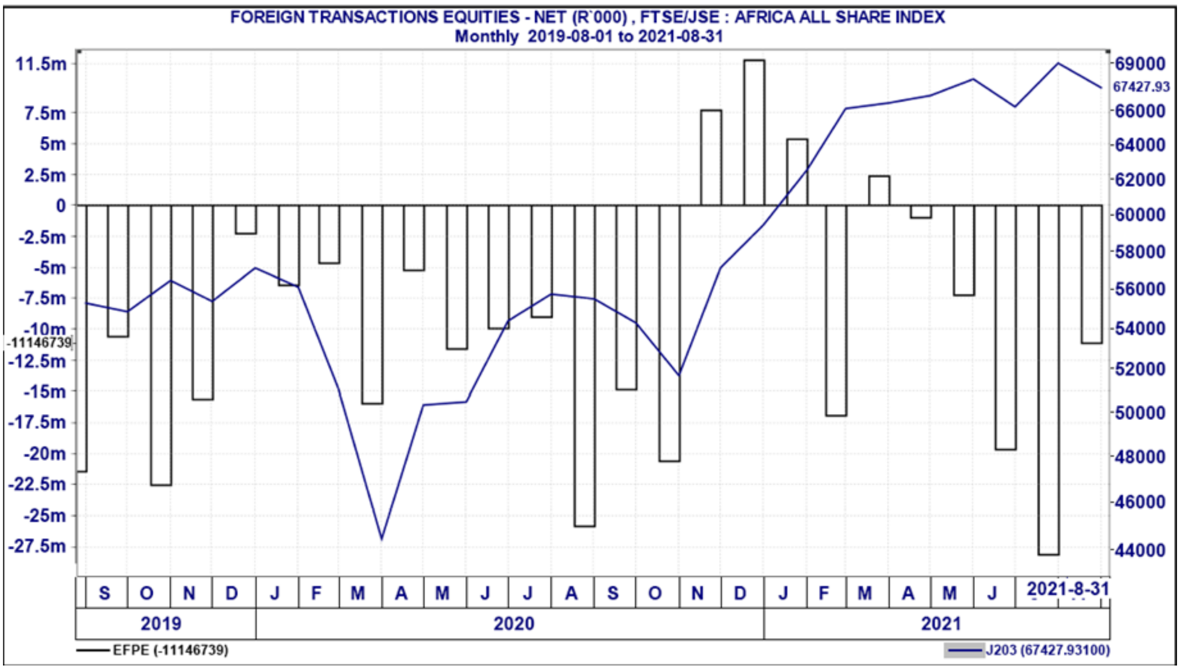
Source: Morningstar & Glacier Research

In terms of sectors, financials took the lead followed by industrials (+0.94%). Resources (-4.79%) and SA industrials (-4.45%) had a challenging month.

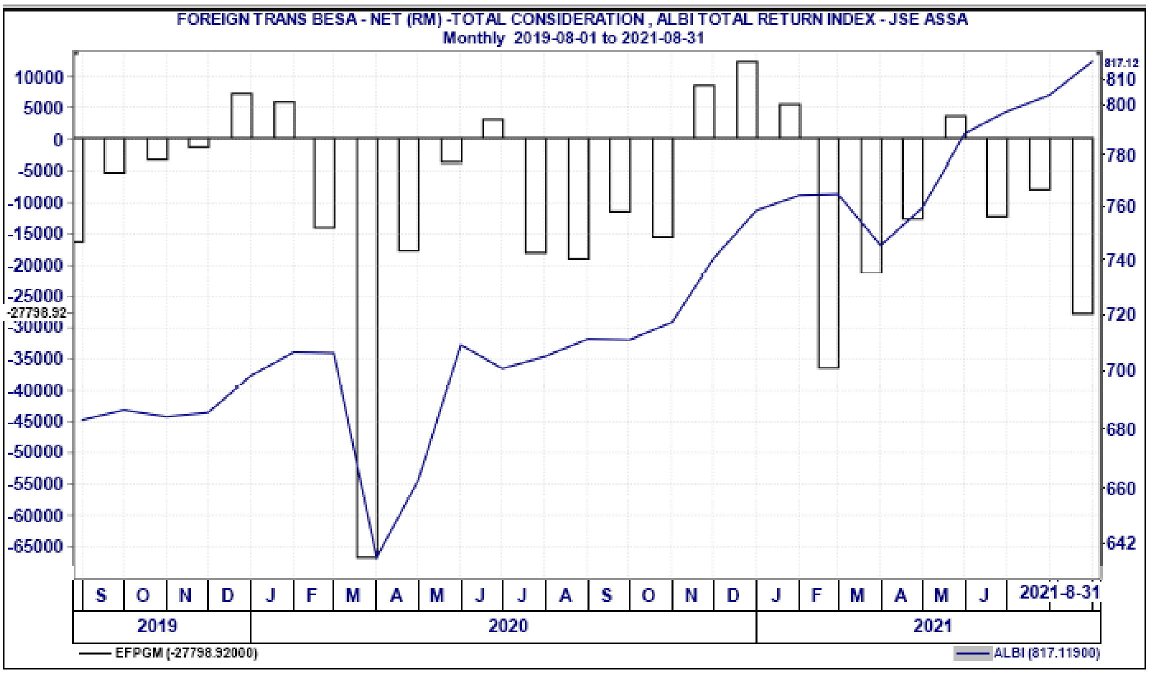
LOCAL SECTOR RETURNS IN ZAR

May 2021	June 2021	July 2021	August 2021	2021 - YTD
CONSUMER SERVICES 12.04%	CONSUMER SERVICES 3.30%	RESOURCES 11.67%	GENERAL RETAILERS 12.77%	GENERAL RETAILERS 57.36%
FINANCIALS 9.30%	GENERAL RETAILERS 1.86%	CONSUMER SERVICES 6.33%	FINANCIALS 12.28%	CONSUMER SERVICES 28.72%
CONSUMER GOODS 4.14%	CONSUMER GOODS 1.20%	INDUSTRIALS 5.90%	CONSUMER GOODS 4.43%	INDUSTRIALS 27.87%
INDUSTRIALS 2.62%	SA INDUSTRIALS 0.38%	CONSUMER GOODS 1.13%	INDUSTRIALS 0.94%	FINANCIALS 23.85%
SA INDUSTRIALS 1.59%	INDUSTRIALS -0.19%	SA INDUSTRIALS 0.94%	SA INDUSTRIALS -4.45%	RESOURCES 19.94%
GENERAL RETAILERS 1.16%	FINANCIALS -3.03%	GENERAL RETAILERS 0.84%	RESOURCES -4.79%	CONSUMER GOODS 16.10%
RESOURCES -1.24%	RESOURCES -6.44%	FINANCIALS -1.21%	CONSUMER SERVICES -9.77%	SA INDUSTRIALS 9.78%

Source: Morningstar & Glacier Research



Source: IRESS August 2021



Source: IRESS August 2021

Global markets

Global equity markets continued its upward momentum, supported by accommodative monetary policy. However, supply chains continue to be disrupted, leading to higher prices, order backlogs, and longer delivery times. In addition, the rise in Delta variant cases across the globe has shifted sentiment lower. As a result, global equity markets ended the month of August higher. Most equity sectors, experienced positive returns with S&P 500, MSCI World AC and MSCI Developed Market returning 2.90%, 2.36% and 2.35%, respectively, in dollar terms. From a sector perspective, sectors were mostly positive, with financial services, technology and utilities leading the pack. Energy and consumer defensive were the laggards.

The price of Brent crude oil fell from US$75.41 to close at US$71.65(-5.01%) a barrel, due to surging Delta variant cases, China's introduction of stricter oil import mandates and OPEC having slowly raised production limits. The US 10-year Treasury yields were up 90 bps to 1.31% as risk-on sentiment was strengthened by the Fed's Chair, Jerome Powell's dovish statements at the Jackson Hole meeting. In addition, lower inflationary pressures and market volatility helped the case for growth stocks. On a global equity style basis, growth was the top-performing style (+3.30%), followed by quality (+3.26%), momentum (+3.18%) and lastly value (+1.63%). Global equity was positive, while global bonds were negative during the month.

United States

US equity markets performed positively during the month as risk-on sentiment was strengthened by Jerome Powell's dovish statements during the month. As a result, the S&P 500 gained 2.90% (20.41% YTD), underperforming the NASDAQ which was up 4% (18.40% YTD) in dollar terms. On the macroeconomic front, the US Manufacturing Purchasing Managers' index (PMI) fell to 61.2 in August from 63.4 in July. The change points to the slowest growth in factory activity in four months although it remains robust. New orders slowed slightly but the rate of growth was one of the most marked on record, as client demand remained substantial. Material shortages and pressure on capacity led to a slowdown in output growth and an unprecedented deterioration in vendor performance led to the second-steepest rise in backlogs of work. The US Services PMI fell to 55.2 in

August from 59.9 in July. The reading pointed to the weakest pace of expansion in the service sector since December 2020 due to labour shortages, the spread of the Delta variant and supply chain disruptions.

New business growth slowed to its lowest in a year with new export orders falling for the first time since February 2021. In addition, the rate of job creation was the slowest since February 2021 amid a high turnover in staff. The US unemployment rate dropped to 5.2% in August from 5.4% in the previous month. The number of unemployed people declined by 318 000 to 8.38 million, while employment levels increased by 509 000 to 153.15 million. However, the jobless rate remains above pre-pandemic levels as the recovery from the COVID-19 shock showed signs of slowing. The annual inflation rate in the US eased to 5.3% in August 2021. The slowdown was seen in the cost of used cars and trucks (31.9% vs 41.7% in July) and transportation services (4.6% vs 6.4%). Inflation was steady for shelter (2.8%) and apparel (4.2%).

Eurozone

European equity markets advanced during the month, supported by strong second-quarter earnings reports and continued pickup in economic activities across the region. As a result, the Euro Stoxx 50 finished 2.53% (+18.14% YTD) higher in euro terms.

On the macroeconomic front, the Eurozone Manufacturing PMI fell to 61.5 in August 2021 from 62.8 in July 2021. The reading pointed to the slowest growth in factory activity in six months, while remaining robust. Manufacturing output continued to grow at a pace rarely exceeded as a result of the ongoing recovery of demand from the depths of the pandemic. The rate of expansion moderated for a second month to the weakest since February. Slower production growth was primarily linked to supply chain constraints. Meanwhile, job creation slowed slightly, in part reflecting labour shortages and backlogs again grew sharply. The Eurozone Services PMI fell to 59 in August from 59.8 in the previous month. Output and new order growth rates cooled from recent peaks as some firms came under pressure from the recent rise in COVID-19 cases. Jobs growth reached the highest since September 2018.

United Kingdom

UK equity markets were in positive territory during the month as the country continues its strong recovery. However, global supply chain disruptions and staff shortages could result in a slowdown. As a result, the FTSE 100 finished 1.24% (+10.20% YTD) higher in pound terms. On the data front, the Purchasing Manager's Index edged lower, down to 60.1 in August of 2021 from 60.4 in July. The reading points to the slowest pace of expansion in the sector since March 2021, although it remained strong overall amid reports of shortages of inputs and delivery delays. Manufacturing output grew the least since February, while incoming new business and export orders continued to rise at solid rates. Employment rose for the eighth month in a row. The UK Services PMI dropped to 55.0 in August 2021 from 59.6 in the previous month. The latest reading indicates the worst month for business activity growth since the current phase of recovery began in March. New business growth lost momentum due to the end of the full stamp duty holiday and a subsequent cooling in consumer demand arising from residential property transactions. The pace of job creation picked up to its strongest level since inception despite reports of staff shortages and a solid increase in backlogs of work.

Spot Rates	31 August 2019	31 August 2020	31 August 2021
EUR/USD	1.10	1.19	1.18
GBP/USD	1.22	1.34	1.38
USD/JPY	106.28	105.91	110.00

Source: IRESS

Emerging markets and Asia

Emerging market equities delivered positively during the month, outperforming its developed market counterparts. The MSCI EM index returned 2.42% (+1.35% YTD), while the MSCI Developed World delivered +2.35% (+16.78% YTD) in dollar terms. Emerging markets were supported by risk-on sentiment as Jerome Powell reassured the market that the Fed is in no hurry to raise interest rates. During the month Europe, Middle East, and Africa (EMEA) turned in strong returns, followed by emerging Asia and Latin American while Pakistan, Brazil and Korean equities lagged. Chinese equities remained flat and underperformed the broader region after the country imposed new lockdown restrictions to tackle the worst wave of COVID-19 infections since the first outbreak in March 2020.

GLOBAL RETURNS IN ZAR

May 2021	June 2021	July 2021	August 2021	2021 - YTD
SHANGHAI STOCK EXCHANGE 0.83%	S&P 500 6.50%	GLOBAL PROPERTY 7.09%	SHANGHAI STOCK EXCHANGE 3.36%	GLOBAL PROPERTY 21.82%
EURO STOXX 50 -1.74%	MSCI WORLD 5.62%	S&P 500 4.88%	S&P 500 1.89%	S&P 500 19.73%
FTSE 100 -1.86%	GLOBAL PROPERTY 5.16%	MSCI WORLD 4.29%	MSCI EM 1.47%	MSCI WORLD 16.14%
MSCI EM -3.24%	MSCI EM 4.25%	GLOBAL BONDS 3.81%	MSCI WORLD 1.34%	EURO STOXX 50 13.98%
GLOBAL PROPERTY -3.77%	GLOBAL BONDS 3.15%	FTSE 100 3.18%	EURO STOXX 50 1.03%	FTSE 100 12.30%
MSCI WORLD -4.07%	EURO STOXX 50 1.64%	EURO STOXX 50 3.18%	GLOBAL PROPERTY 0.39%	MSCI EM 1.27%
GLOBAL BONDS -4.54%	FTSE 100 1.55%	SHANGHAI STOCK EXCHANGE -3.61%	FTSE 100 -0.11%	SHANGHAI STOCK EXCHANGE -0.49%
S&P 500 -4.77%	SHANGHAI STOCK EXCHANGE 0.62%	MSCI EM -4.44%	GLOBAL BONDS -1.53%	GLOBAL BONDS -3.81%

Source: Morningstar & Glacier Research